A Guide to the

Legislative Appropriations Process

HOUSE FISCAL AGENCY

Mitchell E. Bean, Director

February 2002

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TO: Members of the House of Representatives

This ***Guide to the Legislative Appropriations Process*** presents an explanation of the legislative budget process. Included are discussions pertaining to:

- Constitutional and statutory provisions that guide the process,
- The consensus revenue estimating process,
- The Legislature's role in the budget process, and
- Adjustments to enacted appropriations.

Terminology relating to the appropriations process is explained throughout the publication and in a glossary. Figures in the publication show appropriations bill formats, language, and processes. A final section of the ***Guide*** discusses the mission of the House Fiscal Agency, noting the statute and policies governing the nonpartisan status and confidentiality of House Fiscal Agency employees.

Deputy Director Bill Fairgrieve, Associate Directors Al Valenzio and Hank Prince, and Senior Fiscal Analysts Tim Aben and Robin Risko reviewed the draft publication and provided suggestions; their assistance is greatly appreciated. Jeanne Dee, Administrative Assistant, prepared the illustrations and formatted the report for publication.

Please call should you have comments or questions on this report.

Mitchell E. Bean
Director

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INTRODUCTION

The budget process for the State of Michigan is a continuous cycle. While the budget for the upcoming fiscal year is being finalized, the current-year budget is being monitored, and budget planning for subsequent years is in progress. For Michigan, the fiscal year (FY) begins October 1 and ends on September 30 of the following year.

The state budget for Michigan serves the following purposes:

- Plans proposed expenditures,
- Identifies means of financing proposed expenditures,
- Allocates resources according to executive and legislative priorities,
- Provides a tool to monitor spending and hold agencies and departments accountable, and
- Distributes state resources to local governments.

Constitutional and statutory provisions provide the legal framework for the budget process. These provisions are contained in Articles IV, V, and IX of the Constitution of the State of Michigan of 1963, and the Management and Budget Act [1984 Public Act (PA) 431]. An indexed copy of the act is available from the House Fiscal Agency.

It is important to note that appropriations are an authority, but not a mandate, to spend. In fact, many departments do not spend all that they are authorized to spend. General Fund/General Purpose (GF/GP) funds that are authorized but not spent or encumbered revert to the state's general fund and are available should the Legislature choose to appropriate them for another purpose. Restricted funds that are appropriated but not spent lapse to their respective restricted fund unless otherwise specified in the fund's enacting legislation. These funds are available to be used only for purposes consistent with the fund's restrictions and are not available to be used for other purposes.

The Michigan Constitution gives the Legislature the power of the purse; the power of the purse is key to making the Legislature a coequal branch of the government. The power of the purse is also an important tool that may be used by the Legislature to hold departments accountable for compliance with the mandates of the Legislature.

CONSTITUTIONAL AND STATUTORY PROVISIONS

Constitutional Provisions

The State Constitution requires the governor to prepare budget recommendations and submit them to the Legislature at a time fixed by law. The Management and Budget Act of 1984 provides that this submission must take place "within 30 days after the Legislature convenes in regular session," or within 60 days after the Legislature convenes in a year after a newly-elected governor is inaugurated. The act also specifies that the executive budget bills include line item detail and the estimated revenues needed to support proposed expenditures.

As stated in Article IV, Section 13 of the Michigan Constitution, the Legislature must meet on the second Wednesday in January of each year. Hence, the governor typically submits budget recommendations at some time during the first two weeks of February for the fiscal year which begins on October 1 of that year and ends on September 30 of the following year.

Specific constitutional provisions provide the framework for the state budget process. Some of these provisions are listed below.

Article IV

- Establishes a priority for appropriations bills (Section 31).
- States that adjustments made by supplemental appropriations may be adopted for the current fiscal year (Section 31).
- Specifies that one of the general appropriations bills as passed by the Legislature must contain an itemized statement of estimated revenue by major source in each operating fund for the ensuing fiscal period (Section 31).
- States that the total estimated revenue shall not be less than the total of all appropriations made from each fund in the general appropriations bills as passed (Section 31).
- Provides that gubernatorial line item vetoes may be overridden by a two-thirds vote in both houses of the Legislature (Section 33).

Article V

- Requires that the adopted budget be a comprehensive budget, including all operating funds, all proposed expenditures, and the estimated revenues needed to fund those proposals (Section 18).

- States that any deficit or surplus from the last preceding fiscal year must be recorded in the next year's budget and the appropriations bills for that budget (Section 18).

- Requires the governor to submit a balanced budget proposal to the Legislature for the ensuing fiscal period. The governor may revise executive budget recommendations at any time, even after the appropriations bills have been introduced (Section 18).

- States that the governor may disapprove any distinct item or items appropriating moneys in any appropriations bill (Section 19).

- Provides that the governor, with the approval of the House and Senate appropriations committees, can reduce appropriations for the departments of the executive branch if revenues fall below the revenue estimates on which appropriations were based (Section 20).

Article IX

- States that the Legislature shall impose taxes sufficient with other resources to pay expenses of state government (Section 1).

- States that the power of taxation shall never be surrendered, suspended, or contracted away (Section 2).

- Allows short-term borrowing to manage cash flow (Section 14).

- Allows long-term borrowing for capital and other projects, with voter approval usually required (Section 15).

- Stipulates that no money shall be paid out of the state treasury except in pursuance of appropriations made by state law (Section 17).

- Prohibits unfunded mandates on local governments (Sections 25 and 29).

- Limits total state revenue (Section 26).

- Requires a refund or Countercyclical Budget and Economic Stabilization Fund (BSF) deposit if Section 26 is violated (Section 26).

- Limits state expenditures to state revenue limit+federal funds+surplus+BSF beginning balance (Section 28).

- Prohibits reduction of total state spending paid to local governments below the 1979 level (Section 30).

Statutory Provisions

Michigan's Management and Budget Act (Public Act 431 of 1984, MCL 18.1101-18.1594) details duties, responsibilities, and procedures for the financial management and oversight of state government. Its provisions govern the executive budget process and provide for budgetary control. The act also assigns duties and responsibilities for preparing an executive budget recommendation, submitting it to the Legislature, implementing the enacted appropriations bills, and making budgetary adjustments.

Statutory provisions in the Management and Budget Act further define the budget process by:

- Setting the administrative framework for state government;
- Setting the schedule for Consensus Revenue Estimating Conferences;
- Setting the date for budget submission;
- Setting the duties of state budget director;
- Allowing budget adjustments through the transfer process;
- Establishing the process for compliance with constitutional balanced budget provisions through Executive Orders;
- Including provisions governing accounting, auditing, capital outlay, work projects, consensus revenue process, BSF, compliance with Headlee provisions, and reports to the Legislature; and
- Establishing year-end accounting schedules.

THE LEGISLATURE AND THE BUDGET PROCESS

There is a shared role between the executive and legislative branches of state government in formulating the budget. The executive budget process begins well in advance of the time when the budget will be submitted to the Legislature. State departments start planning their budget submissions more than a year before the start of the fiscal year for that budget. Departments typically submit their spending plans to the state budget director in the fall prior to the executive budget submission to the Legislature in February.

The executive budget proposal must include amounts needed for the state's capital outlay program and for debt service on general obligation and transportation bonds. Michigan's General Fund and School Aid Fund expenditures must adhere to consensus revenue estimates; additional proposed expenditures must be accompanied by proposals for new or additional revenues.

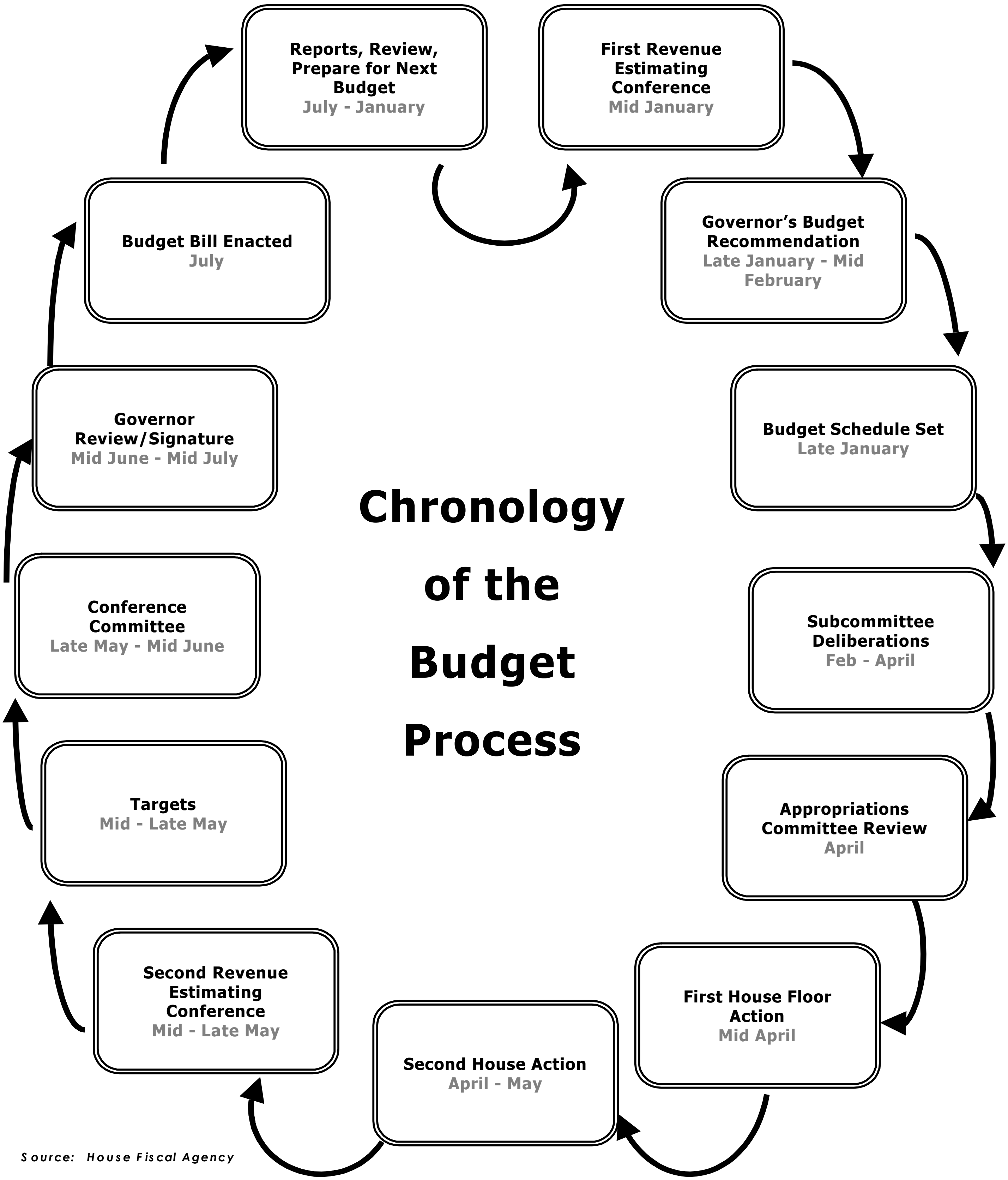
Before presenting final budget proposals to the governor, the state budget director may hold departmental hearings at which officials of the department may discuss budget proposals. If requested by the state budget director, the chief executive officer of a department attends the hearings and provides information requested. A governor-elect is invited to attend and participate in these hearings.

Under the Management and Budget Act, the state budget director is authorized to:

- Plan and develop the executive budget proposal;
- Provide for evaluation of state programs;
- Plan and evaluate allocation of available funding;
- Evaluate administrative management and performance in accordance with approved public policy;
- Review departmental organization and review programs for cost and impact; and
- Prepare spending plans, taking into account the findings of state program evaluations and Auditor General recommendations.

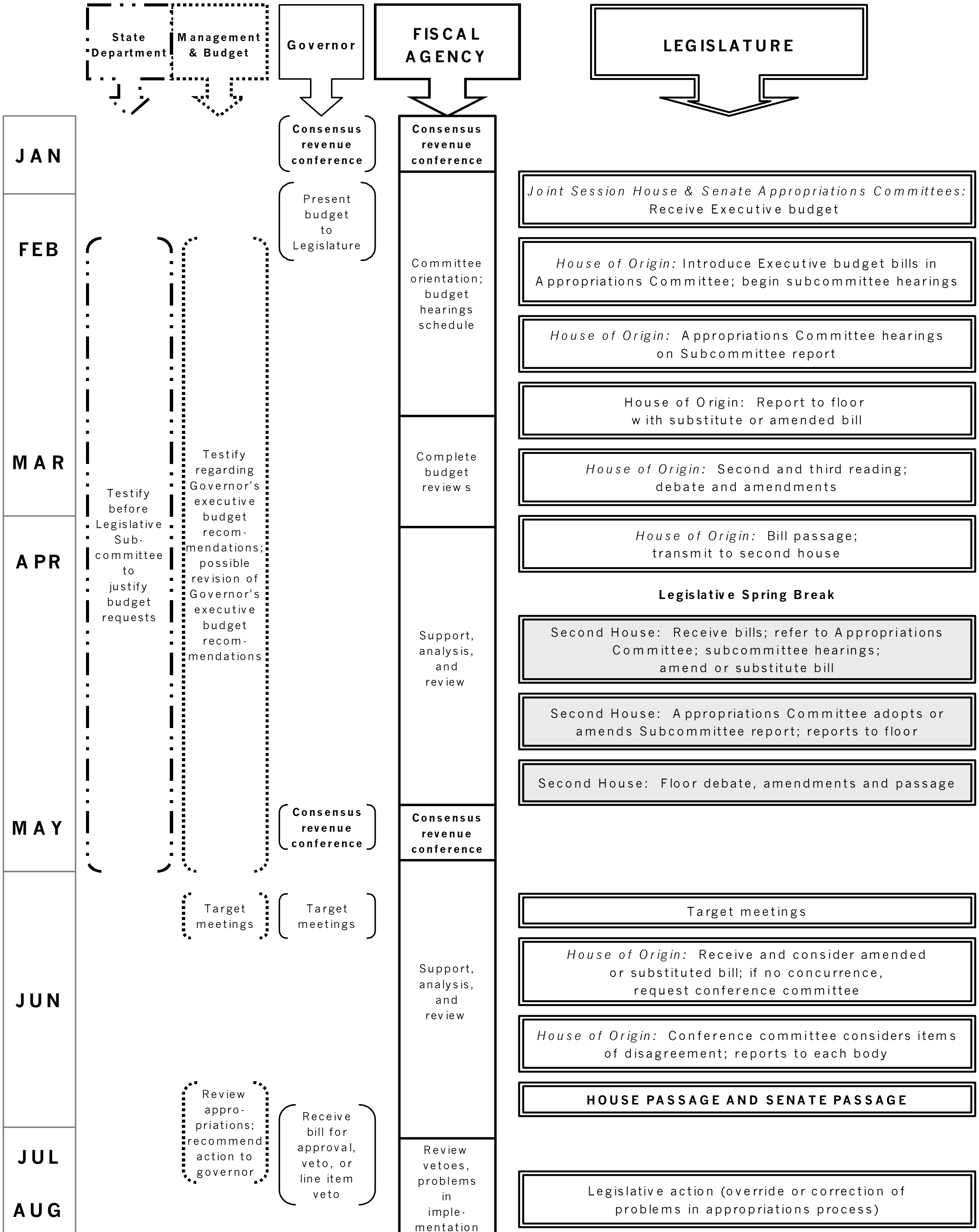
Figures 1 and 2 (next pages) show the chronology of the budget process and note when various parties participate in Michigan's budget process.

Figure 1
Chronology of Budget Process



Source: House Fiscal Agency

Figure 2
Participation in Budget Process



Source: House Fiscal Agency

First Consensus Revenue Estimating Conference

State law requires Executive, House, and Senate agreement on revenue estimates for the coming fiscal year. Consensus Revenue Estimating Conferences establish the official forecasts used in budget deliberations. Executive budget recommendations are based on the January forecast; revisions to the proposed budget are based on the May forecast.

The Management and Budget Act stipulates that Consensus Revenue Estimating Conferences be held in the second week of January and in the last week of May each year. Additional Consensus Revenue Estimating Conferences may be convened during the year by the conference chairperson at the written request of a conference principal. Consensus Revenue Estimating Conferences establish the official economic forecast of major variables of the national and state economies. They also estimate anticipated state revenues and other key provisions related to the overall budget, including:

- Tax collections (income, sales, and business),
- Lottery transfers to the School Aid Fund,
- Total General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenues,
- Annual percentage growth in the per pupil basic foundation allowance (as specified in MCL 388.1601 to 388.1772),
- Compliance with the state revenue limit (established in Article IX, Section 26 of the State Constitution), and
- Pay-ins to or pay-outs from the Countercyclical Budget and Economic Stabilization Fund (BSF) as required by law.

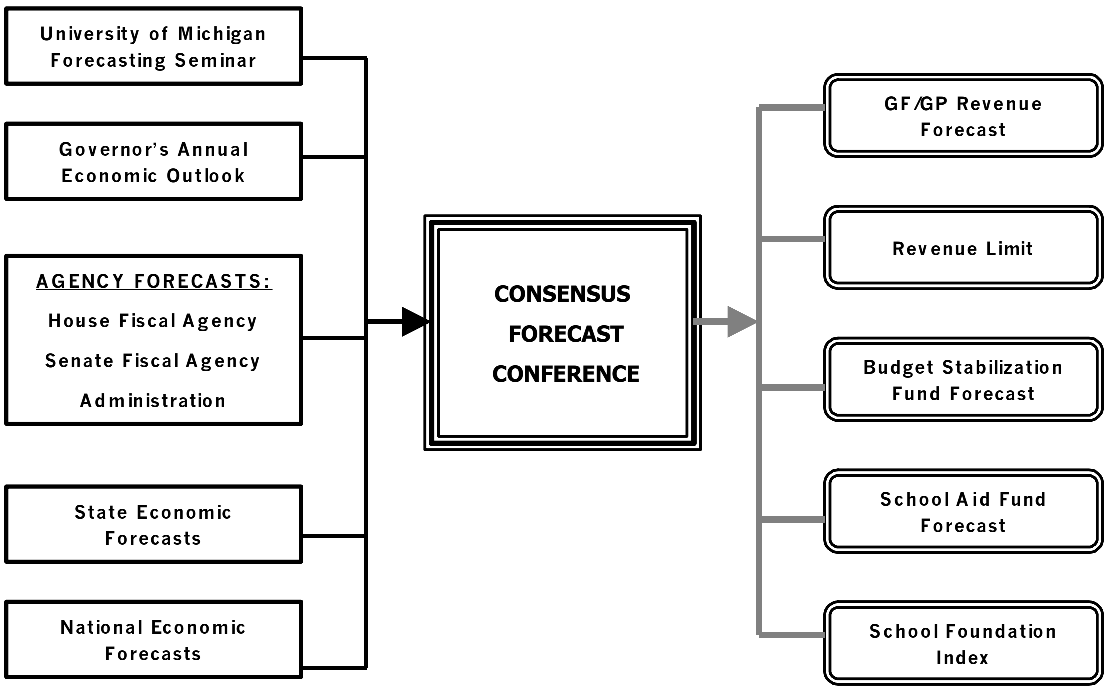
Conference principals are the State Budget Director or the State Treasurer, the Director of the House Fiscal Agency, and the Director of the Senate Fiscal Agency or their respective designees. The responsibility of presiding over sessions of the conference is rotated annually among the principals. In recent years, the State Treasurer has served as the governor's representative at the conference.

Each of the conference participants monitors state and national economies and tracks and estimates revenue resources throughout the year. In preparation for both the January and May conferences, individual revenue estimates are generated by the House Fiscal Agency, the Senate Fiscal Agency, and the Department of Treasury. At the conference, economists from the fiscal agencies and from the Department of Treasury present their own forecasts of the national and state economies and state revenues for the current and upcoming fiscal years.

In order to bring together the best information and insight available about the fundamentals of the economy, experts from academia, the federal government, and the private sector are invited to present and discuss their economic forecasts. These experts often include faculty from state universities, analysts from the big three auto companies, and economists from the Federal Reserve and various international consulting firms.

Figure 3

Economic and Revenue Forecast: State Consensus



After the presentations, the Directors of the House and Senate fiscal agencies and the State Treasurer confer in an effort to come to agreement on a consensus forecast. Once consensus is reached, the January revenue estimates become the basis for the executive budget proposal that is presented to the Legislature in February. The May consensus revenue estimates become the basis for the appropriations bills that the Legislature presents to the governor in June or July.

All consensus meetings are open to the public; members of the Legislature have the opportunity to question each presenter.

Budget Presentation to the Legislature

Broad outlines of the major policy changes and new initiatives are included in the governor's State of the State address, which is typically given at the end of January. A formal presentation of the executive budget usually occurs when the state budget director addresses the House and Senate appropriations committees in a joint session early in February. At this joint session, the state budget director explains the major components of the executive recommendation and answers questions posed by appropriations committee members.

The executive budget document, which details the governor's spending proposals, is released at the joint appropriations committee meeting. As required by the Management and Budget Act, line item appropriation detail is electronically transferred to the legislative fiscal agencies when the budget is transmitted to the Legislature.

Executive appropriations bills, to implement the governor's recommendations, are submitted to the Legislature shortly thereafter. These bills contain individual line item amounts, including the number of full-time equated (FTE) positions funded by each individual line item amount and any revenue sources needed to finance proposed expenditures. One of the appropriations bills (usually the General Government bill) details estimated revenue for each operating fund, summarizes recommended operating fund operating expenditures, and itemizes state spending to be paid to units of local government.

Legislative Deliberation

In Michigan's Legislature, the House and Senate each have an appropriations committee which reviews, deliberates, and recommends adoption of appropriations bills to the full membership of its chamber. The number of members, the ratio of membership from each party, and the composition of appropriations subcommittees may vary from one legislative session to the next; typically, leadership in each chamber makes these decisions in the January following an election. The appropriations subcommittees in each chamber are responsible for the detailed review, deliberation, and recommendation of appropriations bills to the respective appropriations committees.

By tradition, the legislative leaders apportion the executive appropriations bills between the House and Senate for initial consideration. The legislative appropriations bills originate in either the House or the Senate (alternating year to year); the originating chamber is referred to as the "first house."

Once introduced and referred to the respective appropriations committees, the bills are assigned to appropriations subcommittees for detailed examination, review, and, if necessary, revision. House and Senate leadership agree on a time schedule for subcommittee, full committee, and floor action on the bills. The appropriations subcommittee chairs plan and schedule the subcommittees' meetings so that subcommittee actions on the appropriation bills are completed on time.

Throughout the subcommittee and full committee process, the appropriations committee retains legal possession of the appropriations bills. The full appropriations committee may act on any of the appropriations bills at any time during the committee process. Amendments to an appropriations bill can occur during subcommittee consideration of the bill, when the bill is taken up in full committee, and/or when the bill is being considered on the floor of each chamber.

Because most amendments/changes occur during the committee processes, members who do not serve on appropriations committees may want to confer with appropriations committee and subcommittee chairs and/or minority vice chairs about policy proposals as soon as feasible.

Figures 1 and 2 (pages 8 and 9) illustrate the legislative appropriations process described below:

- At the House and Senate appropriations subcommittee level, legislators review the executive budget recommendations and current-year budget provisions. They also convene public meetings and meet with department staff. These informational sessions can involve the testimony of department officials, fiscal agency staff, program clientele, interest groups, and any other entities that may provide information related to the issue.

Appropriations subcommittees consider and include legislative priorities when reviewing line items and boilerplate sections of a proposed appropriations bill. This review may take the form of a line-by-line review of the bill by the complete subcommittee or a work group made up of subcommittee members. Decision-making and the resolution of differences in areas where there are disagreements or controversy may lead to revising or rewriting the appropriations bill (usually as a substitute). This is followed by the bill being reported out of the subcommittee to the full appropriations committee.

- At the House and Senate full appropriations committee level, legislators review subcommittee recommendations and amend, substitute, or adopt the bill—or send the bill back to the subcommittee for further deliberation. Once the bill has been approved by the full appropriations committee, it is reported out of full committee to the floor of the respective chamber.

- After an appropriations bill is reported out of the full appropriations committee, House Rule #49 requires that the bill must "lay over" five calendar days before passage. This five-day delay allows time for all members to familiarize themselves with the bill. However, this rule may be suspended with the approval of 3/5 of the members present that day.

- Floor action involves debate, proposed amendments, and possible introduction of a substitute bill. Once an appropriations bill is passed by the first house, it is transmitted to the second house for assignment to the appropriations committee, where it goes through the same review and deliberation process as it did in the first house. When the second house completes its work on an appropriations bill, that bill (often with changes or as a substitute bill) is returned to the first house—which may concur or not concur in the adoption of the bill as received from the second house. The appropriations bill, after being debated in both the House and Senate, is then either passed by both chambers or referred to a conference committee where only the items of difference may be considered.

- If passed, the bill is sent to the governor for review, possible veto of any distinct item or items appropriating moneys, signing, and filing with the Secretary of State for a Public Act number. The bill is then considered enacted.

- If House and Senate versions of an appropriations bill differ, the bill is usually assigned to a conference committee where only the items of difference are considered by House and Senate members appointed to the committee. If agreement is reached, the conference report is presented to both the House and Senate chambers where it can be voted up or down, but not amended. If accepted by both chambers, the bill is sent to the governor for review, possible veto, signature, and filing with the Secretary of State—at which point the bill is considered enacted.

Throughout this process, beginning with the governor's executive budget presentation, the fiscal agencies provide technical support and analysis to members of subcommittees, full committees, and conference committees in their respective chambers. Analysts are available to testify before a subcommittee or full committee to explain the details of the budget and the fiscal impact of any changes made to that budget. House Fiscal Agency analysts also provide support to House members when the bill is on the floor of the House, including drafting amendments and substitute bills.

During the entire budget process, fiscal agency analysts provide members with documents to aid in the decision-making process. For consideration by subcommittees and full committees, the fiscal agencies prepare decision documents comparing the executive recommendation with alternatives and options proposed by members. Prior to floor action, summary documents are prepared for members to use during floor deliberations.

Second Consensus Revenue Estimating Conference

The second revenue estimating conference takes place during the latter part of May in order to draw on the most recent tax receipt and economic data. May consensus estimates provide updated information which is used to make budget adjustments before final passage of appropriations bills for the upcoming fiscal year.

Target Meetings

House and Senate majority party leaders may convene target meetings with the state budget director, who represents the governor in target discussions. Target meetings are typically set soon after the May Consensus Revenue Estimating Conference.

The purpose of the target meeting process is for leadership to come to an agreement on the total amount of resources which will be available to support the budget for the coming year, apportion those resources among the appropriations bills, and resolve any disagreements among the target meeting participants. The target process allows House leaders, Senate leaders, and administration officials to negotiate matters pertaining to particular programs, budget issues, and policies. In effect, the final targets become an appropriations ceiling for each of the respective bills. Final target decisions are included in the target agreement; this provides a basis for the remainder of the budget deliberation and adoption process.

At the target meetings, the Directors of the House and Senate fiscal agencies and the state budget director provide fiscal analyses and information to facilitate discussions. They also document the decisions reached at the meetings and prepare target summary reports for the leaders and members of each of the legislative chambers.

Conference Committees

If the first house does not concur in the amendments or substitute bill of the second house, a conference committee is appointed. Under the Joint Rules of the Senate and House of Representatives, the conference committee consists of three members from each house, to be appointed as each house determines. The first-named member of the house in which the bill originated is the chairperson of the conference committee. By joint rule, conference committees may not consider any matters other than matters of difference between the two houses on a particular appropriations bill.

If the conferees arrive at an agreement on the matters of difference, a document is produced that conforms with the conference agreement (the “conference report”). The report of the conference committee is not subject to amendment or division by the House or the Senate. Each house must vote “yea” or “nay” on acceptance of the conference report as presented. If the conference report is adopted by both houses, the bill and the original signed copy of the conference report are returned to the house of origin and referred for enrollment printing and presentation to the governor.

Should the conference committee’s report be rejected by the house of origin, that house appoints conferees for a second conference and notifies the other house of its action. If the conference report is rejected by the other house, it appoints conferees for a second conference, notifies the house of origin and transmits the bill to the house of origin which would then also appoint conferees. The ensuing second conference committee procedure is the same as that used for the original conference.

In the event that a second conference committee fails to reach agreement, or when a second conference report is rejected by either house, no further conference is in order and the conference process ends for that bill.

Governor’s Approval

After an appropriations bill passes both houses, the bill is enrolled and presented to the governor who has 14 days to approve or veto the entire bill or veto any distinct items appropriating moneys—the same procedure applicable to any other enrolled bill. If the governor does not approve the bill within the 14-day period and the Legislature continues in session, the bill becomes law as if the governor had signed it. If, however, the governor does not approve the bill within the 14-day period and the Legislature has, within that time, finally adjourned the session at which the bill was passed, the bill does not become law.

The parts of the bill that are approved become law and the items disapproved are void, unless the Legislature repasses the entire bill or the disapproved items by a 2/3 vote in each house. However, the Attorney General has ruled (Opinion 6684, 1991) that the governor “may not veto conditions upon these appropriations in the absence of vetoing the line item appropriations appearing as individual line items or in paragraph form.”

After the governor signs an appropriations bill, it is filed with the Secretary of State for a Public Act number and considered enacted. The governor also writes a letter (sent to the bill’s originating chamber) summarizing the major points of the appropriations act, giving a rationale for approving the bill, and stating the reasons for any disapproved items.

ADJUSTMENTS TO ENACTED APPROPRIATIONS

Supplementals

The supplemental appropriations process allows the Legislature to make adjustments to the current-year budget. A supplemental appropriations bill for the current budget year may be introduced, by either the House or the Senate, at any time after appropriations for the year have been enacted. The bill is then deliberated and adopted like any other appropriations bill.

During a fiscal year, the state may experience changes in available revenues, funding, or expenditure needs. Unanticipated tax receipts, unexpected nontax revenues, reduced funding requirements, or program savings may result in some additional state revenue sources. A supplemental appropriations bill, for one or more departments or budget areas, allows the state to make positive or negative budget adjustments to keep the budget in balance for any of the following reasons:

- To allocate additional revenue,
- To implement program reductions to keep the budget in balance, and/or
- To allow a shift in funding from one department to another (NOTE: Interdepartmental transfers can be accomplished only by supplemental appropriation).

A letter from the Executive requesting a supplemental appropriations bill usually begins the process. The bill can then be introduced in either the House or the Senate. Depending on the type of supplemental requested, legislative deliberations begin at the subcommittee level or the full appropriations committee level. The legislators review the bill, revise the bill or initiate a substitute, and report the bill out of committee.

After committee passage, a supplemental bill is debated in both the House and Senate. If passed by both chambers with differences, the supplemental bill is referred to a conference committee where only the items of difference are negotiated. Once approved by both the House and the Senate, a supplemental bill is sent to the governor for review, possible veto of any distinct item or items appropriating moneys, signature, and filing with the Secretary of State.

Transfers

A transfer is an accounting adjustment made to allow department line items with current or impending deficits to be funded from surplus accounts. Two types of transfers are authorized pursuant to the Management and Budget Act: administrative transfers and legislative transfers.

Although appropriations bills must be used to move funding from one appropriations act to another or from one department to another, the appropriations transfer process can be used to move moneys from one line item to another within a particular department. The House and Senate fiscal agencies provide staff support to their respective appropriations committees to ensure the transfers are identical in terms of funding sources and dollar amounts and to ensure compliance with all applicable laws related to transfers.

Unlike supplemental appropriations, appropriations transfers—administrative or legislative—do not require or involve deliberation and adoption by the full House and Senate. **Figure 4** illustrates the two types of appropriations transfer procedures.

Administrative Transfer

Administrative transfers allow funds to be transferred to correct deficits caused by:

- Unanticipated cost and price variations;
- Shortfalls in federal sources of financing for a specific line item;
- Shortfalls in restricted sources of funding for a specific line item; or
- Court judgements, settlements, and claims.

Transfers of line item appropriations within any department can be made by the state budget director through the process authorized by the Management and Budget Act. However, administrative transfers may not be used to make adjustments which have policy implications or which have the effect of creating, expanding, or reducing programs within a department.

The administrative transfer process includes the following steps:

- The Department of Management and Budget, in consultation with the department(s) involved, submits a letter with the recommended transfers to each member of the House and Senate appropriations committees for the committees' review.

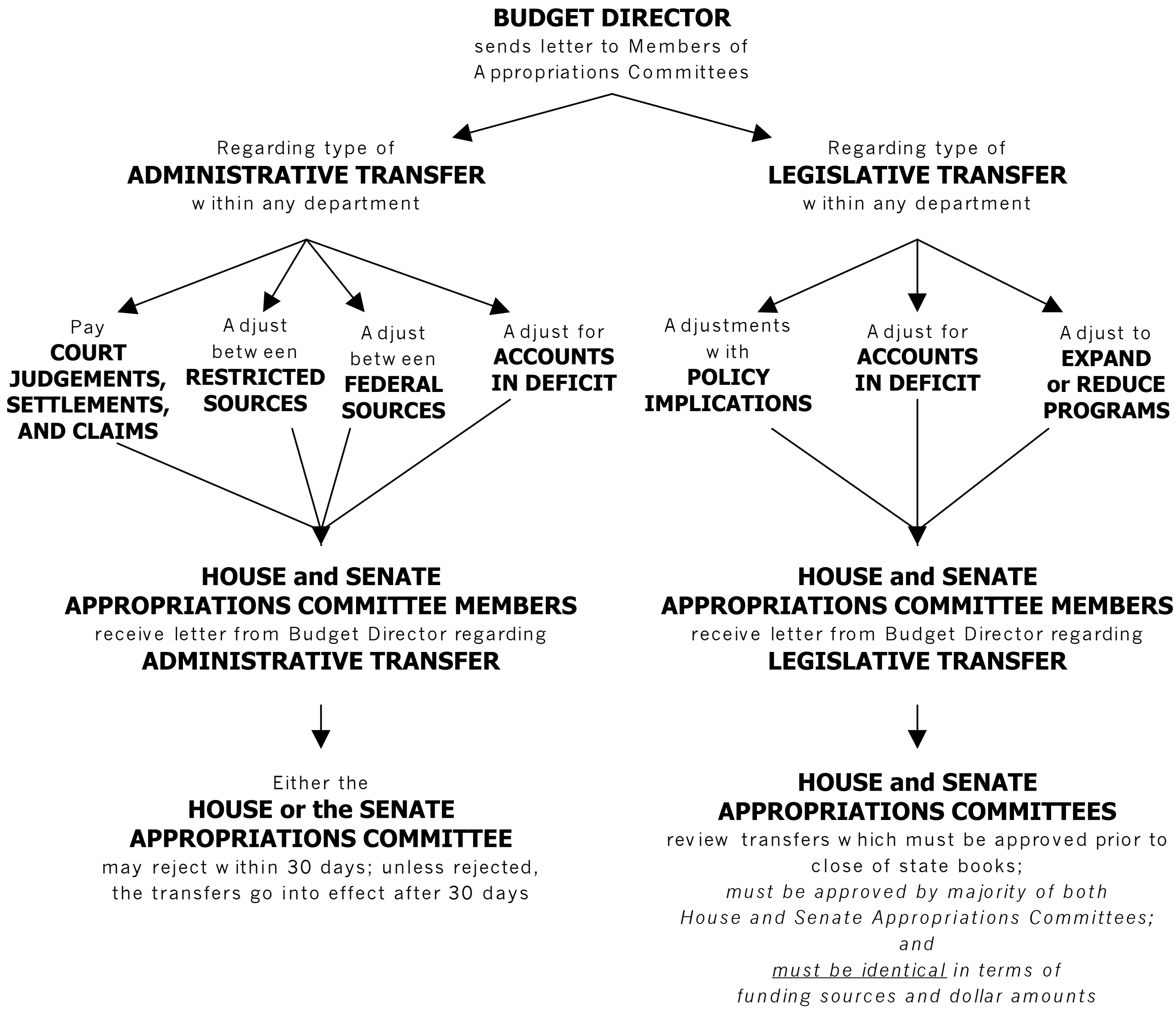
- The House and Senate appropriations committees have 30 days after receiving the letter from the state budget director to disapprove any or all of the recommended transfers.

- If no disapproval action occurs within the 30-day period, the transfers have the full effect of law.

Legislative Transfer

Legislative transfers allow transfers of line item appropriations to make adjustments that may have policy implications and to make adjustments to expand or reduce programs. Typically, legislative transfers are initiated by the state budget director who submits them for approval by both the House and Senate appropriations committees. Both appropriations committees must authorize legislative transfers; if either appropriations committee withholds transfer authorization, that transfer cannot occur.

Figure 4
Transfer Process



Source: House Fiscal Agency

The following process is used for Legislative transfer adjustments:

- The Department of Management and Budget, after consultation with the departments involved, submits a letter with the recommended transfers to each member of the House and Senate appropriations committees for their review and approval. Although recommendations for legislative transfers typically come from the state budget director, members of the appropriations committees can also initiate and approve transfers.

  If the state budget director does not approve transfers adopted by both the House and Senate appropriations committees, the state budget director must notify each member of both appropriations committees of his/her action within 15 days after the House and Senate appropriations committees' final approval.

- Approved legislative transfers must be identical in terms of funding sources and dollar amounts.

- If legislative transfers are approved by both appropriations committees, a joint letter of approval, together with the approved transfers, is signed by the chairpersons of the appropriations committees and sent to the state budget director. A transfer approved pursuant to the Management and Budget Act has the full effect of law.

Emergency Reductions

If it appears that actual revenues for a fiscal year will fall below anticipated revenues, the Management and Budget Act provides that the governor shall order the state budget director to review all appropriations except those made for legislative and judicial branches of government or from funds constitutionally dedicated for specific purposes. Based upon the state budget director's review, the governor, with approval of the appropriations committees, may, by Executive Order, reduce expenditures authorized by appropriations. This applies only to expenditures appropriated for the departments and agencies of the executive branch. It does not apply to expenditures appropriated for the legislative or judicial branches.

The governor must give not less than five days notice to the members of the appropriations committees specifying a time and place for a joint meeting of the governor and the appropriations committees at which the governor presents his/her recommendations and the proposed Executive Order. Within ten days thereafter, the appropriations committees must approve or reject the order. If both committees approve, the state budget director implements the order. Should one house reject the order, the notice and joint meeting process may be repeated.

Work Projects

The Management and Budget Act requires that at the end of the fiscal year, the portion of an appropriation not yet expended and not committed for expenditure lapses to the state fund from which it was appropriated. The one exception to this requirement is a work project appropriation.

According to the Management and Budget Act, a "work project" is defined as a one-time, nonrecurring undertaking for the purpose of accomplishing an objective. A work project appropriation continues to be available until completion of the work or 48 months after the last day of the fiscal year in which the appropriation was originally made, whichever comes first.

In order to be designated as a work project appropriation, the work project must meet all of the following criteria:

- The work project must be for a specific purpose.
- The work project must contain a specific plan to accomplish its objective.
- The work project must have an estimated completion cost.
- The work project must have an estimated completion date.

The state budget director has the authority to issue directives to lapse existing work project accounts at any time. However, the state budget director must notify the House and Senate appropriations committees and the House and Senate fiscal agencies of work project accounts that the state budget director has ordered to lapse.

In addition, within 45 days after the close of a fiscal year, the state budget director must notify the House and Senate appropriations committees and the House and Senate fiscal agencies of appropriations proposed to be designated as work project accounts. This notification must include an estimate of the dollar amount of the funds to be designated as work project accounts and a description of all work project accounts designated in an appropriations act.

Either or both of the appropriations committees may disapprove proposed designations as work project accounts or directives to lapse existing work project accounts within 30 days after the date they are notified by the state budget director. If neither appropriations committee disapproves within the 30-day time frame, the proposed work project accounts or the directives to lapse work project accounts become effective.

Within 120 days after the close of a fiscal year, the state budget director must prepare and deliver to the House and Senate appropriations committees and the House and Senate fiscal agencies a report that summarizes current work project accounts. This report must contain a listing of all work project accounts, the balance in each account, the amount of funds that lapsed from any previously-designated work project accounts, and the accounts that received these lapses.

Occasionally, the Legislature will include specific boilerplate language in an appropriations bill which establishes a work project account. However, more often than not, the executive branch designates work project accounts, although they are subject to rejection by the appropriations committees of either chamber.

Appropriations Units

An appropriations bill, when enacted, provides the legal authorization to make specified expenditures for specified purposes. Within an appropriations bill, authorization is given by unit and by program and/or line item.

The appropriations bill generally consists of two major parts. Part 1 provides an appropriations summary followed by a listing of the funds authorized for each line item in the bill. Part 2 includes additional provisions concerning the appropriations for the fiscal year, including the amount of state spending that will be paid to local units of government.

Figures 5 and 6 (next pages) illustrate the current appropriations bill line item format. **Figure 5** shows the summary unit—which appears at the beginning of the bill. It includes total FTE positions, gross appropriations, adjusted gross appropriations, and general fund/general purpose appropriations for the bill. Also included are the sources of funding to finance the appropriations.

The appropriations unit and line item detail of the bill follow the summary unit. **Figure 6** illustrates appropriations units which establish the spending authority for one or more programs or functions within each unit. Terminology used in Figure 6 includes the following:

- **Unit**
  Typically, an appropriations unit houses a closely-related group of activities/programs which are intended to address an identified need, problem, or objective (which usually corresponds with a major area of focus).

- **Line Item**
  Each line item provides expenditure authorization for a specific purpose; it may include more than one program or function related to the specified purpose of the line item. The line items are organized into units.

Figure 5

EXAMPLE OF APPROPRIATIONS BILL LINE ITEM FORMAT: SUMMARY UNIT

HOUSE BILL NO. 5273

An act to make appropriations for the department of agriculture for the fiscal year ending September 30, 2001; to provide for the expenditure of the appropriations; to create funds; to provide for the imposition of fees; to require reports, audits, and plans; to authorize certain transfers by certain state agencies; and to provide for the disposition of fees and other income received by certain state agencies.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

PART 1

LINE-ITEM APPROPRIATIONS

Sec. 101. Subject to the conditions set forth in this act, the amounts listed in this part are appropriated for the department of agriculture for the fiscal year ending September 30, 2001, from the funds indicated in this part. The following is a summary of the appropriations in this part:

DEPARTMENT OF AGRICULTURE

APPROPRIATION SUMMARY:			
Full-time equated unclassified positions	6.0		
Full-time equated classified positions	653.5		
GROSS APPROPRIATION		$	98,321,500
Interdepartmental grants and intradepartmental transfers:			
Total interdepartmental grants and intradepartmental transfers . .			9,680,800
ADJUSTED GROSS APPROPRIATION		$	88,640,700
Federal revenues:			
Total federal revenues			6,037,000
Special revenue funds:			
Total local revenues			0
Total private revenues			1,121,900
Total other state restricted revenues			34,122,000
State general fund/general purpose		$	47,359,800

"GROSS APPROPRIATION" is the sum of all appropriations in the bill.

This is the Summary unit of the bill. It contains a summary of the total FTE positions in the bill and total appropriations in the bill by funding source.

"ADJUSTED GROSS APPROPRIATION" is the Gross Appropriation less interdepartmental grants and intradepartmental transfers.

Sources of funding for the gross amount appropriated in the bill.

Source: House Fiscal Agency

Figure 6

EXAMPLE OF APPROPRIATIONS BILL LINE ITEM FORMAT: APPROPRIATIONS UNITS

"Appropriations Unit" generally corresponds to an organizational unit in agency.

Program line item appropriations with corresponding FTE positions.

Special revenue funds:			
Industry support funds .			
State general fund/general purpose			
Sec. 102 ADMINISTRATIVE SERVICES			
Full-time equated classified positions	72.5		
Management services--64.0 FTE positions		$	4,724,100
Communications and emergency management--8.5 FTE positions			712,400
Property Management Charges			628,100
Rent			237,500
GROSS APPROPRIATION		$	6,302,100
Appropriated from:			
Special revenue funds:			
Gasoline inspection and testing fund			51,400
Licensing and inspection fees			62,200
State general fund/general purpose		$	6,188,500
Sec. 103 PESTICIDE AND PLANT PEST MANAGEMENT			
Full-time equated classified positions	147.8		
Groundwater & Freshwater Protection--10.0 FTE positions		$	3,500,900
Pesticide and plant pest management--137.8 FTE positions			12,071,500
Michigan state university			210,000
GROSS APPROPRIATION		$	15,782,400
Appropriated from:			
Federal revenues:			
DAG-AMS, cooperative agreement			35,300
DAG-APHIS, Plant and animal disease and pest control			34,600
DAG-FS, multiple grants			2,011,200
EPA-OE, Pesticides enforcement program grants			974,000
EPA-RCRA			148,200
EPA-OWWM, water pollution control, lake restoration cooperative agreement			236,300
HHS-FDA			15,400
Special revenue funds:			
Commodity inspection fees			945,100
Licensing and inspection fees			2048,900
Groundwater & Freshwater Protection Fund			3,500,900
State general fund/general purpose			5,832,500

Sum of FTE positions in unit.

Total Appropriations for unit.

Sources of funding for unit; adds up to Gross Appropriation.

Source: House Fiscal Agency

State Spending to Local Governments

Article IX, Section 30 of the State Constitution requires that the proportion of state spending from state sources paid to all units of local government may not be reduced below the proportion in effect in FY 1978-79. The proportion has been determined to be 48.97%. The current practice is to include a Section 201 which includes a recapitulation of total state spending from state sources, including a statement of the amounts going to local units of government, in each appropriations bill adopted by the Legislature.

Boilerplate

Appropriations bills contain stipulations specifying the manner in which expenditures are made. These are called "boilerplate" provisions and they may earmark funding, require reports, and establish legislative interests and priorities. The Legislature intends that boilerplate conditions affect the way in which the executive branch implements or executes the adopted spending plan or budget.

Figure 7 shows an example of boilerplate provisions. In some years, certain boilerplate language is common to all bills. Recent examples include language pertaining to "hiring freeze" and "buy American." These standardized boilerplate provisions are agreed to by House and Senate leadership during legislative deliberations.

Most boilerplate provisions, however, are nonstandard. These nonstandard provisions typically vary as each appropriations bill has special requirements, e.g., monthly reporting and/or providing for conditional funding of certain activities. The appropriations subcommittees usually decide upon the specific nonstandard boilerplate language to be included in each bill.

Figure 7

SAMPLE BOILERPLATE FROM ACT 321, DEPARTMENT OF CORRECTIONS BUDGET FOR FISCAL YEAR ENDING SEPTEMBER 30, 1999

STANDARD FOR FY 1998-99	Sec. 209. (1) Beginning October 1, 1998, a hiring freeze is imposed on the state classified civil service. State departments and agencies are prohibited from hiring any new full-time state classified civil service employees and prohibited from filling any vacant state classified civil service positions. This hiring freeze does not apply to internal transfers of classified employees from 1 position to another within a department or to positions that are funded with 80% or more federal or restricted funds.
NON STANDARD FOR FY 1998-99	Sec. 212. Notwithstanding any existing contracts for belts used by corrections officers, if facilities and equipment are available, belts issued for use by corrections officers shall be manufactured by Michigan state industries or another prison industry operation. Sec. 215. A prisoner who wins money in a lottery shall pay from those winnings the amount necessary to reimburse the state for the accrued cost of incarcerating that prisoner.

Source: House Fiscal Agency

HOUSE FISCAL AGENCY: ROLES AND RESPONSIBILITIES

The first Legislative Fiscal Agency was established by 1964 PA 277; it operated under the direction of the appropriations committee of the Senate and the ways and means committee of the House of Representatives. Public Act 412 of 1965 stated that "There is created an agency to be known as the fiscal agency to be of service to the appropriations committee of the senate."

The "House legislative fiscal agency" was created by 1970 PA 137; it was to be "governed by a committee of 5 members, including the chairman and 4 other members of the committee to be appointed by the chairman, of which 2 shall be from the minority party." Further Legislative action (1972 PA 228) created a fiscal agency "to be known as the house fiscal agency to be of service to the appropriations committee of the house."

The House Fiscal Agency (HFA) is the nonpartisan fiscal staff of the House of Representatives. The Agency operates under a bipartisan Governing Committee consisting of the three majority and three minority leaders of the House. Its primary task is to analyze the state budget as recommended by the governor as well as alternative proposals submitted by the state departments and by members of the Legislature. The Agency also assists all members of the House with information and analysis. In addition, the Agency director is one of three principals charged by statute to participate in the annual Consensus Revenue Estimating Conferences.

Agency analysts assess the fiscal impact of bills coming before standing committees, prepare special studies, and do fiscal research for any representative who requests it. The Agency also provides orientation and training on state budget and finance matters to members and their staffs.

Nonpartisan Status

House Fiscal Agency Governing Committee policies require that "all Agency employees will execute their assigned duties with impartiality and without regard to their own personal opinions, attitudes, or beliefs. Employees are prohibited from involvement in any 'partisan political activities' if such participation could give the appearance that the employee's impartiality could be compromised or threatened."

The Governing Committee requires that "Employees specifically are prohibited from becoming an officer in a state or national partisan political party, becoming a delegate to any state, district, or county convention held by a political party, becoming a member of any national political party committee, or becoming a delegate from the state to any national political party convention. An employee of the Agency will not become a declared candidate for any partisan public office without first resigning from Agency employment. An employee of the Agency will notify the Director of an appointment to any board, commission, council or other agency of the State of Michigan or a local unit of government."

Confidentiality

Statute requires that an employee of the House Fiscal Agency "shall not reveal to any person who is not an employee of the house fiscal agency the contents or nature of any bill, substitute, amendment, resolution, special report, or proposal not yet published unless the employee has the consent of the member who is sponsoring or requesting the bill, substitute, amendment, resolution, special report, or proposal. A bill shall not be considered published until it is introduced. A substitute, an amendment, or a conference report shall be considered published when received by the secretary of the senate or the clerk of the house of representatives, or both, as is appropriate."

Confidentiality of House Fiscal Agency staff is further defined in HFA Governing Committee Policies: "The working relationship between the staff of the Agency and the members of the Legislature shall be confidential. Therefore, matters pertaining to activities being processed or completed for members or committees of the Legislature by employees of the Agency will not be discussed or otherwise made known without the prior approval of the member or committee concerned."

Appropriations Process Tools

Each year the House Fiscal Agency prepares many documents, available to all members of the House, to assist legislative deliberation of executive budget recommendations. Some of these documents are listed below.

Michigan Economic Outlook
and House Fiscal Agency Revenue Estimates
Prepared by the House Fiscal Agency as a working paper for the Consensus Revenue Estimating Conferences; explains the methodology and assumptions used in HFA's economic analysis and revenue estimation process; available twice yearly, approximately one week before the January and May Consensus Revenue Estimating Conferences.

State of Michigan Revenue Source and Distribution
Details the sources of estimated state revenues and shows how those revenues are earmarked or dedicated to the various state operating funds; available twice yearly, after the January and May Consensus Revenue Estimating Conferences.

Revenue Sharing Payments to Local Governments
Provides updated information on general revenue sharing payments to local governments; includes population and estimated payment details for each local unit; available twice yearly, after the January and May Consensus Revenue Estimating Conferences.

The Governor's Budget Proposal: Review and Analysis
Provides a detailed explanation of the executive budget recommendation, highlighting major changes from the prior-year budget; available soon after the governor releases his budget recommendations.

State of Michigan Appropriations Summary and Analysis
Details appropriations adopted by the Legislature and signed by the governor, including major budgetary changes from the current fiscal year by department and agency; available after budget bills are enacted.

Directory of State-Administered Grants
Describes and categorizes grants available through state departments; available after budget bills are enacted.

Line Item Summary
Explains the specific line item appropriations and the purposes for which these moneys were authorized; a summary is prepared for each of the current appropriations acts; available after budget bills are enacted.

Reports Required by Boilerplate
A listing of all reports required by boilerplate in the current fiscal year appropriations acts; the purpose, the reporting and receiving entities, and the due date are provided for each required report; available after budget bills are enacted.

A list of other publications prepared for members by the House Fiscal Agency is available by contacting the Agency.

GLOSSARY

Adjusted Gross Appropriations: Gross appropriations, less interdepartmental grants (IDGs), and intradepartmental transfers (IDTs)

Boilerplate: Language sections contained in an appropriations act which place conditions on line item expenditures, including required reports

Budget Stabilization Fund (BSF): The Countercyclical Economic and Budget Stabilization Fund, sometimes referred to as the "rainy day" fund

Federal Revenues: Federal grant or matchable funding dedicated to specific programs

General Fund/General Purpose (GF/GP): The state's primary operating fund; the portion of the state's General Fund that does not include restricted revenues

Gross Appropriations, Gross: Summation of all applicable line item spending authorizations

house: Either chamber of the Legislature

House: Michigan House of Representatives

Interdepartmental Grant (IDG): Revenue or funds received from another state department (usually for a service the receiving department provides)

Intradepartmental Transfer (IDT): Transfers or funds being provided from one appropriation unit to another in the same department

Lapse: Unspent/unobligated balance remaining in a line item account at the end of the fiscal year that reverts or "lapses" to the state fund from which it was appropriated

Line Items: Specific amounts detailed in an appropriations bill which establish spending authorities for a particular program or function (may be for a single purpose or for multiple purposes)

Local Revenue: Revenues from local units of government

Other State Restricted, or Restricted Funds: State revenue dedicated to a specific fund (other than the General Fund); or revenue earmarked for a specific purpose

Private Funds*:* Revenues from nonpublic entities such as rents, royalties or interest payments, payments from hospitals, payments from individuals, and gifts and bequests

School Aid Fund (SAF): The primary funding source for K-12 schools and Intermediate School Districts (ISDs)

Work Project Appropriation: Appropriation made for a specific project which continues to be available until completion of the work or 48 months after the last day of the fiscal year in which the appropriation was originally made

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